
Review of the Office of Elementary & Secondary Education's Monitoring of Formula Grants

FINAL AUDIT REPORT



Control Number ED-OIG / A04-A0013
November 2001

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U.S. Department of Education
Office of Inspector General
Atlanta, Georgia

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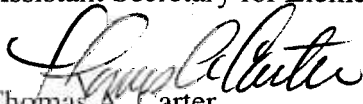
UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

NOV 26 - 2001

MEMORANDUM

TO Susan B. Neuman
Assistant Secretary for Elementary and Secondary Education

FROM 
Thomas A. Carter
Assistant Inspector General for Audit

SUBJECT **FINAL AUDIT REPORT**
Review of the Office of Elementary & Secondary Education's Monitoring
of Formula Grants, **Control Number ED-OIG/A04-A0013**

Attached is our subject final report that covers the results of our review of the Office of Elementary & Secondary Education's Monitoring of Formula Grants. We received your comments generally concurring with the findings and recommendations in our draft audit report.

Please provide the Supervisor, Post Audit Group, Office of Chief Financial and the Office of Inspector General with quarterly status reports on promised corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the process and general public to the extent information contained there in is not subject to exemptions in the Act.

We appreciate the cooperation give us in the review. Should you have any questions concerning this report, please call Carol S. Lynch, Regional Inspector General for Audit, at (404) 562-6462.

Attachment

cc Delores Warner, ALO, OESE

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EXECUTIVE SUMMARY

We performed an audit of the Office of Elementary & Secondary Education's (OESE) monitoring of formula grants. The objective of our audit was to determine whether OESE was monitoring elementary and secondary education formula grant programs for compliance with laws and regulations. The audit period covered fiscal year FY 2000 (October 1, 1999, through September 30, 2000).

At the time of our review, OESE was monitoring elementary and secondary education formula grant programs for compliance with laws and regulations through a process known as the integrated review approach. At the conclusion of our review, changes were being made to OESE's program monitoring and oversight procedures. These changes called for program specific monitoring, the transitioning of integrated reviews to focus on low performing schools, and specific program leadership for other issues cutting across OESE programs.

We noted several areas of concern relating to the integrated review approach to monitoring formula grants. Despite the fact that changes were made to OESE's monitoring and oversight procedures, it is important for OESE to be aware of the areas of concern that we identified. We recognize that the changes to OESE's monitoring begin to address some of these concerns. However, as OESE continues to develop its new approach to monitoring, the following areas of concern should be addressed:

- There was a lack of consistency across Regional Service Teams (RST) when conducting reviews.
- There was insufficient time to monitor some programs for compliance with laws and regulations under the integrated review approach.
- There was a lack of knowledge by OESE staff on the integrated review teams about areas examined by auditors for the single audit.

We recommend that the Assistant Secretary for Elementary and Secondary Education ensure consistency in the conduct of the various types of reviews conducted by OESE staff. Specifically, OESE should:

- 1.1 Ensure that changes made to the integrated review approach to monitoring address the areas of concern noted in our report, i.e., consistency across RSTs, amount of time to monitor, and knowledge of and coordination with the single audit process.
- 1.2 Assign staff to both program specific and low-performing schools monitoring teams who possess the necessary expertise to review the program that they are representing.
- 1.3 Ensure that findings identified during program specific reviews and low-performing school reviews are followed up on in a consistent manner.

The Office of Elementary and Secondary Education generally concurred with the recommendations. In their response to the draft report, they described corrective action taken or planned. The comments are summarized in the report and the full text of the comments is included as an attachment.

BACKGROUND

The mission of the OESE is to promote academic excellence, enhance educational opportunities and equity for all America's children and families, and to improve the quality of teaching and learning by providing leadership, technical assistance, and financial support. It provides financial assistance to state and local education agencies for maintenance and improvement of both public and private preschool, elementary, and secondary education. The Office of Elementary and Secondary Education administers 14 formula grant programs, programs in which funding is distributed to all states (including Puerto Rico and the District of Columbia) based on statutory formulas. During FY 2000, approximately \$12 billion was appropriated by Congress to these 14 formula grant programs. At the time of our review, the integrated review was the vehicle used by OESE to examine the various states' administration of formula grant programs.

The Department's Strategic Plan, covering 1998 – 2002, discusses integrated program reviews as a core strategy to achieve its objective of making sure that the Department of Education (ED) partners have the support and flexibility they need without diminishing accountability for results. The Strategic Plan states that, since many of the Department's programs serve similar target populations, the Department needs to be organized to promote the integration of federal programs with one another, as well as with state and local programs. The integrated review was one review process that promoted program integration by using cross-cutting program teams to provide program monitoring and technical assistance.

To develop the integrated review process, the Quality Indicators model for OESE integrated reviews was proposed and accepted as the conceptual model for OESE integrated reviews. Quality Indicators for program implementation were broad descriptions of elements that are essential to a state's implementation of federal formula grant programs. They provided states with guidance for reviewing their systems of administering federal programs and for continuously improving those systems. In August 1998, a working group was formed to focus time and effort on moving the Quality Indicators model to a functional level of development for implementation in FY 1999 integrated reviews.

Integrated reviews were performed by staff representing the various OESE grant programs. At the time of our review, there were a total of seven Regional Service Teams, each one having between 11 and 17 team members. A Program Director was assigned to each RST with overall responsibility and signed off on the team's integrated review reports. The Team Administrator determined who would serve as the review leader or co-leader. RSTs were responsible for carrying out a designated number of integrated reviews each year. Teams conducting the on-site review did not include all members of the RST, and usually consisted of seven to twelve members. The RSTs, through a consensus process, proposed a slate of team members to conduct each on-site integrated review. Each on-site integrated review had a review leader who was responsible for providing the overall leadership in planning and conducting the review.

Integrated reviews included both analysis of program administration for compliance with the legislation and the provision of technical assistance for program improvement. States were reviewed on a four year cycle, and included an on-site visit which lasted one week. The integrated review process began several months prior to the actual on-site visit, when states shared the results of a State Self-Review document with the OESE team conducting the review. The team also reviewed other program information provided to them by the state at this time. RST members considered their review of the State Self-Review and other supporting documentation to be an integral part of the review.

According to the OESE Staff Manual for Integrated Reviews, reviews were designed to look at federal education programs as a coherent set of funding efforts and emphasized program quality and cross-program collaboration and coordination, which lessened the burden on the states. This cross-program coordination was also emphasized in the Department's Strategic Plan. Prior to using the integrated review approach, reviews were conducted by individual program and numerous visits may have been made to the same state each year. RST members that we interviewed expressed some positive aspects to the integrated review approach to monitoring. One RST member stated that the integrated review approach was solid and met the collaborative process. Another RST member felt that this process was stronger than the previous monitoring approach.

When our review began, the integrated review was the vehicle used by OESE to examine the various states' administration of formula grant programs. At the conclusion of our review, changes were being made to OESE's program monitoring and oversight procedures. These changes called for program specific monitoring, the transitioning of integrated reviews to focus on low performing schools, and specific program leadership for other issues cutting across OESE programs.

"Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1, issued November 1999 by the General Accounting Office pursuant to the Federal Managers' Financial Integrity Act of 1982) provides that federal managers are responsible for compliance monitoring and safeguarding assets. The Single Audit Act Amendments of 1996, P.L. 104-156, section 7504, requires federal agencies to monitor non-federal entities' use of federal awards and assess the quality of audits conducted. However, there are no statutory or regulatory provisions that direct the U.S. Department of Education to monitor states' compliance with the various programs, or specific provisions on how to conduct monitoring. Based on the requirements under FMFIA and the Single Audit Act, the Department of Education has an implicit obligation to ensure that recipients of funds under Elementary and Secondary Education programs comply with applicable statutory and regulatory requirements.

RESULTS OF OUR REVIEW

At the time of our review, OESE was monitoring elementary and secondary education formula grant programs for compliance with laws and regulations through a process known as the integrated review approach. At the conclusion of our review, changes were being made to OESE's program monitoring and oversight procedures. These changes called for program specific monitoring, the transitioning of integrated reviews to focus on low performing schools, and specific program leadership for other issues cutting across OESE programs. We noted several areas of concern when examining the integrated review approach to monitoring formula grants for compliance with laws and regulations. It is important for OESE to be aware of the areas of concern identified. As OESE continues to develop their new approach to monitoring, they have the opportunity to improve the new monitoring approach by addressing these concerns. The areas of concern are discussed below.

INCONSISTENCIES WHEN CONDUCTING REVIEWS

Review of the integrated review process indicated that there was a lack of consistency in conducting reviews. Team members had varying levels of experience with their programs. Additionally, teams had different ways of approaching the review. For example, the focus of the review, visits to the Local Education Agencies (LEA), and approach to follow-up varied by team.

Staff Assignments: Staff assigned to RSTs to perform integrated reviews were often replaced by permanent members of another RST. These reassignments occurred because the permanent members of the RSTs did not always possess the necessary level of experience to review the program that they were responsible for reviewing, or because the staff member assigned to perform the review would not travel. The reassignments were often made days or weeks before a review, which left little time for the new team members to adequately prepare for the review.

According to the 1998 OESE Staff Manual for Integrated Reviews, team members assigned to perform integrated reviews were required to have knowledge about a large number of documents, initiatives, procedures, and requirements related to cross-cutting issues and program – specific information. Through interviews, we learned that members of RSTs had different levels of experience with the program that they were responsible for reviewing. Individuals assigned to the RSTs did not always possess the necessary level of experience to review the program that they represented. This was particularly evident within the Title I program. On numerous occasions, the team member assigned to represent the Title I program was replaced by a more experienced reviewer.

We also noted that some individuals assigned to RSTs would not travel. Days or weeks before the review, these team members would decide that they could not travel with the team on-site to perform the review. An individual permanently assigned to another team would then replace them.

Members of review teams interviewed emphasized the importance of the time that they spent planning and preparing for the integrated reviews. Planning typically began several months prior to the review. The preparation phase for the on-site review was designed to ensure that the RST was familiar with state specific progress and needs, and enable the team to develop specific plans for on-site examination and technical assistance. The activities and schedule of the on-site review were carefully chosen and designed to meet the objectives of the particular integrated review. By replacing team members with members of another team at the last minute, there is a risk that the new member will not be adequately prepared to meet the objectives of the particular integrated review.

Follow-up on Review Findings: RSTs approached follow-up to review findings differently. According to the OESE Staff Manual for Integrated Reviews, it is the responsibility of the program officer for the affected program to assure that the state takes corrective action. The program officer should also keep the RST apprised of the state's progress.

During interviews, RST members were unclear as to who was responsible for following up on findings. Not only did team members respond differently when asked about follow-up to findings, but members on the same team also responded differently. When asked who was responsible for follow-up, answers included all of the following: the person who wrote the finding, the team leader, the review leader, and the Program Director.

Focus of Review: The focus of the review varied depending on the RST conducting the review. Some teams spent most of their time on technical assistance and training while other teams focused more on compliance issues. Differences were also noted in the degree to which the various teams incorporate the integrated review concept of reviewing programs in a coordinated manner into their review.

LEA Visits: Inconsistencies were noted relating to the teams' visits to the LEAs and the selection of the LEAs to visit. Some teams described the selection of the LEAs to visit as more of a negotiation process with state officials. Additionally, some teams spent more of their on-site time at the LEAs. For example, some teams spent 3 days at the LEAs and 1 day at the SEA, while others spent more time at the SEA.

INSUFFICIENT TIME FOR COMPLIANCE MONITORING

We interviewed seventeen individuals who served on RSTs during FY2000 regarding their thoughts on the integrated review process. This included 12 RST members, five Team Administrators, and one Program Director. Thirteen of the seventeen individuals interviewed felt that there was insufficient time to monitor their program for compliance under the integrated review approach. Integrated review teams normally spent one week on-site conducting the review. Most program representatives found that this was not enough time to monitor all necessary areas for their program. Although some individuals interviewed did identify benefits associated with the integrated review approach, most felt that these benefits were often at the expense of monitoring some programs for compliance with appropriate laws and regulations. The following are comments from team members by program:

- TITLE I PROGRAM: Five out of six RST members representing the Title I program, and the former Program Director, felt that the integrated review approach did not allow enough time

to monitor for compliance with their program's requirements. These individuals stated that they did the best that they could to review all areas with the time that they had, but that there generally was not enough time to cover everything.

- SAFE & DRUG FREE SCHOOLS PROGRAM: Two out of two RST members representing this program felt that the integrated review approach did not allow enough time to monitor for compliance with their program's requirements.
- MIGRANT EDUCATION PROGRAM: One RST member interviewed representing this program, when asked whether or not there was sufficient time to cover all program compliance areas, responded that it depended on the size of the program in the state being reviewed. This RST member was not certain that all compliance areas were being reviewed in states with a large Migrant Education Program, or in states that had not been reviewed for a number of years. The other individual representing the Migrant Education Program felt that integrated reviews should be more compliance oriented.
- OTHER PROGRAMS: Representatives of other programs did not voice any concerns regarding the time that was allotted for monitoring for compliance with appropriate laws and regulations. One individual interviewed representing the Title II and VI Programs felt that the review team had enough time to accomplish the goals of the review. Individuals representing the Goals 2000 Program stated that their program does not have rigorous legislative requirements regarding monitoring for compliance with laws and regulations.

Without sufficient time to monitor programs for compliance with laws and regulations, there is a risk that programs that are not in compliance with program requirements will remain unidentified.

SINGLE AUDIT

There was a lack of knowledge by OESE staff on the RSTs about areas examined by auditors for the single audit. In planning for an on-site review, members of the review team would meet with the audit resolution coordinator of their particular program to learn whether there were any open or outstanding audit issues. Some review teams also requested and reviewed a copy of the audit report for the state or district that the team was about to visit. However, most reviewers did not conduct any detailed research relating to single audits before going on-site.

The Single Audit Act requires every non-federal entity that expends a total amount of federal awards equal to or in excess of \$300,000 to have a single audit or a program-specific audit performed each year. In conducting the single audit, the auditor is only required to review those federal programs identified as "major programs." A risk-based approach is supposed to be used to determine whether or not a federal program is a major program.

Although review teams learned whether or not there were any open or outstanding audit issues before going on-site, they usually did not determine whether their program was covered as a major program in the single audit performed during that fiscal year. Therefore, information from a program's audit resolution coordinator that there were no findings in that year's audit report did not necessarily mean that there were no reportable conditions in their program. No findings could also mean that the program was not reviewed in the audit performed that year. We also found that members of the review teams did not determine exactly what areas the auditor

reviewed while on-site conducting the single audit. At a minimum, review team members should determine which programs were covered by the single audit and which programs had findings.

Each year the OIG non-federal audit team solicits input from all program offices regarding changes to be made to the Compliance Supplement. The Compliance Supplement is based on the requirements of the 1996 Amendments and final revision of OMB Circular A-133. It provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures. Since it is not feasible to test compliance with all program requirements in a single audit, the Compliance Supplement was developed to direct auditors to specific areas that need to be examined. The Supplement outlines those requirements that, if not complied with, could have a material (generally adverse) effect on a program. According to the Procedures for the Annual Update of the Compliance Supplement, judgement needs to be exercised in deciding which requirements need to be tested. Due to the expertise of review team members with the various program compliance requirements, it would be beneficial to include them in updating the Supplement.

A lack of knowledge by OESE staff about the single audit process and the compliance items examined by the single auditors raises a question as to whether there is a coordination of effort taking place. By increasing the knowledge of OESE monitoring staff about the single audit process, OESE has the opportunity to improve its overall monitoring and oversight efforts. OESE could develop such a relationship by working with the OCFO and OIG non-federal Audit team to develop a better understanding of the single audit process.

ISSUES ADDRESSED BY CHANGES TO OESE'S MONITORING

Since the completion of the on-site audit work, changes have been made to OESE's monitoring system. These changes call for program specific monitoring, transitioning integrated reviews to focus on low performing schools, and leadership for other issues cutting across OESE programs. We recognize that the changes do address several of our areas of concern. Specific concerns addressed are as follows:

Inconsistency in the Focus of the Review

Under the new monitoring system, there will be two different types of reviews that will address different issues: reviews that focus specifically on turning around low performing schools and program specific reviews. Replacing the integrated review concept with reviews focused on turning around low-performing schools, and adding program specific monitoring, will address the issue of inconsistency regarding the focus of the review. Compliance monitoring and technical assistance outside of issues related to low performing schools will be the responsibility of each program.

Insufficient Time to Monitor for Compliance

The changes to monitoring call for program specific monitoring and hold each Program Director responsible for developing a program specific monitoring plan. By making each Program Director responsible for developing his or her own monitoring plan, each Program Director has the opportunity to create a plan that will allow adequate time to monitor for compliance with program requirements. At the time of our review, the Title I program office had already begun to perform program specific monitoring using a proposal that was approved by the OESE Assistant Secretary.

At the completion of our on-site work, the changes to monitoring had not been fully implemented. Therefore, we could not make any determinations on the effectiveness of the new monitoring system, or the extent to which it completely addressed the noted areas of concern. As OESE develops and refines the changes to its program monitoring and oversight procedures, we recommend that OESE continue to review our observations.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education ensure consistency in the conduct of the various types of reviews conducted by OESE staff. Specifically, the Assistant Secretary should:

- 1.1 Ensure that changes made to the integrated review approach to monitoring address the areas of concern noted in our report, i.e., inconsistency across RSTs, amount of time to monitor, and knowledge of and coordination with the single audit process.
- 1.2 Assign staff to both program specific and low performing schools monitoring teams who possess the necessary expertise to review the program that they are representing.
- 1.3 Ensure that findings identified during program specific reviews, and low-performing school reviews are followed up in a consistent manner.

AUDITEE'S RESPONSE

The Office of Elementary and Secondary Education concurred, in general, with the recommendations. In their response to the draft report, they described the following corrective action taken or planned:

- The Acting Deputy Assistant Secretary has been directed to deal with each of the areas of concern noted in the report. In the interim, each program office in OESE continues to monitor for compliance with its particular program requirements.
- OESE is reconsidering the previous Administration's concept of "low-performing-school monitoring teams." In the meantime, each program director has been directed to ensure that only qualified personnel conduct such reviews.
- The Acting Deputy Assistant Secretary has been asked to work with program directors to develop a procedure to follow up on findings and a system to keep track of the follow up.

- OESE staff have attended both OIG and OCFO sponsored workshops focusing on using single audits for program monitoring and improving skills through sharper audit resolution. Additionally, OESE has recommended that OCFO include program monitoring and auditing data in the Department's revised Common Audit Resolution System (CARS).

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether the Office of Elementary & Secondary Education was monitoring formula grants for compliance with appropriate laws and regulations.

The audit period covered FY 2000 (October 1, 1999, through September 30, 2000). We performed our survey fieldwork in Washington, DC Program Offices May 9 – 12, 2000. Detailed audit work was conducted in headquarters January 3 – 10, 2001. An exit conference was held on April 4, 2001.

To achieve our objective we performed the following:

- Interviewed a total of 22 OESE representatives to obtain an understanding of the on-site monitoring process from planning to report issuance to follow-up. Specifically, individuals interviewed included: OESE officials, program directors, and members of four randomly selected RSTs representing the various OESE programs.
- Obtained and analyzed copies of integrated review reports, and reviewed documents maintained pertaining to the on-site visits to identify the extent of compliance monitoring performed while on-site.
- Interviewed other Department officials on issues relating to the single audit process and how OESE could use information found in the single audit reports to improve their current monitoring efforts.

Our review was conducted in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we made an assessment of OESE's management controls, procedures, and practices applicable to the scope of our audit. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our tests to accomplish the audit objective. For the purposes of this report we reviewed management controls over the integrated review process which included: state selection process, quantity of reviews, assignment of staff to perform the reviews, documentation and file maintenance kept for each program review, issuance of review reports, and follow-up to reviews.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the control structure. However, we noted the management control weaknesses that are discussed in the audit results section.

EXHIBIT**SCHEDULE OF OESE PERSONNEL INTERVIEWED**

	RST 1	RST 3	RST 4	RST 5	OTHERS
Number of Team Members	3 – Title I	1 – Goals 2000 & Technology Literacy Challenge Fund 1 – Migrant Ed 1 – Eisenhower & Innovative	1 – Title I 1 – Safe & Drug Free Schools 1 – Migrant Ed	2 – Title I 1 – Safe & Drug Free Schools	Team Administrator – RST 7 (Goals 2000 & TLCF)* Team Administrator for RST Policy and Protocol** Director, Academic Improvement and Demonstration Programs Unit
Other Personnel	Team Administrator – Eisenhower & Innovative Program Director – Title I	Team Administrator – Impact Aid	Team Administrator – Migrant Ed	Team Administrator – Title I**	Deputy Assistant Secretary for Management and Planning Audit Resolution Coordinator for Compensatory Education**

* - This individual was interviewed during the Survey Phase of our review.

** - This individual was interviewed during both the Survey and Audit Phases of our review.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

MEMORANDUM

THE ASSISTANT SECRETARY

To: Lorraine Lewis
Inspector General

OCT 1 2001

From: Susan B. Neuman, Ed.D.

Subject: Review of the Office of Elementary & Secondary Education's Monitoring of Formula Grants, ED-OIG/A04-A0013

I am responding to the recommendations included in the Draft Audit Report at page nine. In general, I concur with the recommendations and have instructed my Senior Staff to address them. I have asked Acting Deputy Assistant Secretary (DAS) Joe Conaty to direct the effort to improve the Office of Elementary and Secondary Education's (OESE) monitoring practices.

Recommendations:

- 1.1 Ensure that changes made to the integrated review approach to monitoring address the areas of concern noted in the report.

The draft audit report identified a number of concerns about inconsistencies in OESE's conduct of program reviews; insufficient time for compliance monitoring; and lack of knowledge about the Single Audits conducted by States. I have directed Acting DAS Conaty to deal with each of these areas of concern. In the interim, each program office in OESE continues to monitor for compliance with its particular program requirements.

- 1.2 Assign staff to both program-specific and low-performing-school monitoring teams that possess the necessary expertise to review the program they are representing.

At this time I am reconsidering the previous Administration's concept of "Low-performing School Monitoring Teams." In the meantime, I have directed each program director to ensure that only qualified personnel conduct such reviews.

- 1.3 Ensure that findings identified during program specific reviews and low-performing school reviews are followed up in a consistent manner.

I have asked Acting DAS Conaty and Acting Deputy Assistant Secretary Tom Corwin to work with program directors to develop a procedure to follow up on findings and a system to keep track of the follow up.

- 1.4 Develop a partnership with the OCFO and the OIG non-federal Audit Team through which an understanding of the Single Audit process can be fostered. Specifically, we recommend that the OESE monitoring staff be trained on the single audit process so that they know what is required of the Single Audit, whether or not their program is covered as a major program by the Single Audit, and the extent to which their program was covered by Single Audit. It would also be beneficial to include RST members in the process of updating the Compliance Supplement.

Together with the Office of Inspector General (OIG) and the Office of the Chief Financial Officer (OCFO) OESE has taken steps to address this recommendation. OIG presented a Single Audit overview and training on May 22 and 23 and on June 5. The training focused on the use of single audits for program monitoring. Staff learned how knowledge of single audits could improve grant-monitoring skills. At that time, OIG also made a presentation on the overall Compliance Supplement revision and updating process.

In addition, OESE staff attended an OCFO sponsored workshop on June 12 entitled "Improve your Management Skills Through Sharper Audit Resolution."

Finally, OESE has recommended that the OCFO include program monitoring and auditing data in the Department's revised Common Audit Resolution System (CARS). Inclusion of this information would create a single data base that includes the current status and history of a particular State as it pertains to program monitoring and related audit findings.

If you have any questions about this memorandum, please contact Acting DAS Conaty at 401-9090. Please let Dr. Conaty know whom on your staff we should contact if he has any questions.

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